

HENRY COUNTY, IOWA

Independent Auditors' Reports
Basic Financial Statements
and Supplementary Information
Schedule of Findings

June 30, 2006



HENRY COUNTY, IOWA

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HENRY COUNTY, IOWA

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tom Young	Board of Supervisors	January 2009
Gary See	Board of Supervisors	January 2009
Marc Lindeen	Board of Supervisors	January 2007
Hettie Maschmann	County Auditor	January 2009
Ana Lorber	County Treasurer	January 2007
Bernice Wallace	County Recorder	January 2007
Allen Wittmer	County Sheriff	January 2009
Michael Riepe	County Attorney	January 2007
Gary Dustman	County Assessor	January 2009



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Independent Auditors' Report

To the Officials of Henry County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Henry County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Henry County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Henry County at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2007 on our consideration of Henry County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 35 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Henry County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2005 (neither of which are presented herein) and expressed unqualified opinions on these financial statements. The financial statements for the year ended June 30, 2003 (which is not presented herein) were audited by other auditors who expressed a qualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Theobald, Donohue & Thompson, P.C.

Mt. Pleasant, Iowa
January 8, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Henry County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Revenues of the County's governmental activities increased 0.9%, or approximately \$108,000, from fiscal 2005 to fiscal 2006. Property tax increased approximately \$345,000 and operating grants and contributions decreased approximately \$131,000.
- Program expenses were 5.1%, or approximately \$523,000, more in fiscal 2006 than in fiscal 2005. Physical health and social services expense decreased approximately \$660,000, county environment and education expense increased approximately \$347,000, roads and transportation expense increased approximately \$453,000, government services to residents expense increased approximately \$135,000, and administration expense decreased approximately \$85,000.
- The County's net assets increased 1.8%, or approximately \$512,000, from June 30, 2005 to June 30, 2006.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Henry County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Henry County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Henry County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the County's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue and the individual Agency Funds.

REPORTING THE COUNTY'S FINANCIAL STATEMENTS

Government-wide Financial Statements

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The County's governmental activities are presented in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, and non-program activities. Property tax and state and federal grants finance most of these activities.

Fund Financial Statements

The County has two kinds of funds:

1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. These governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads, and 3) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for E911 surcharge, emergency management services, and the County Assessor, to name a few.

The required financial statements for fiduciary funds include a statement of fiduciary assets and liabilities. Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Henry County's combined net assets increased from \$27.6 million to \$28.1 million, mainly due to additions to capital assets. The analysis that follows focuses on the changes in the net assets for governmental activities.

Net Assets of Governmental Activities (Expressed in Thousands)

	June 30,	
	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 11,129	10,945
Capital assets	<u>23,137</u>	<u>22,643</u>
Total assets	<u>34,266</u>	<u>33,588</u>
Long-term debt outstanding	503	525
Other liabilities	<u>5,663</u>	<u>5,475</u>
Total liabilities	<u>6,166</u>	<u>6,000</u>
Net assets:		
Invested in capital assets, net of related debt	23,137	22,643
Restricted	4,576	4,771
Unrestricted	<u>387</u>	<u>174</u>
Total net assets	<u>\$ 28,100</u>	<u>27,588</u>

Net assets of the County's governmental activities increased by 1.8 % (\$28.1 million compared to \$27.6 million). The largest portion of the County's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment). Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements—increased by \$213,000 to approximately \$387,000 at the end of this year.

Changes in Net Assets of Governmental Activities
(Expressed in Thousands)

	Year Ended June 30,	
	2006	2005
Revenues:		
Program revenues:		
Charges for service	\$ 1,069	908
Operating grants and contributions	3,627	3,758
Capital grants and contributions	-	433
General revenues:		
Property tax	4,952	4,607
Penalty and interest on property tax	64	62
State tax credits	312	263
Local option sales tax	761	735
Grants and contributions not restricted to specific purposes	207	213
Unrestricted investment earnings	282	122
Other general revenues	55	120
Total revenues	11,329	11,221
Program expenses:		
Public safety and legal services	2,297	2,093
Physical health and social services	463	1,123
Mental health	2,185	2,093
County environment and education	756	409
Roads and transportation	3,055	2,603
Government services to residents	904	769
Administration	974	1,059
Non-program	183	146
Total expenses	10,817	10,295
Increase (decrease) in net assets	512	926
Net assets beginning of year	27,688	26,762
Prior period adjustment	(100)	-
Net assets end of year	\$ 28,100	27,688

Henry County's revenues for governmental activities increased by approximately \$108,000 from the prior year, with property tax revenue up from the prior year by approximately \$345,000, or 7.5 percent.

The cost of all governmental activities this year was \$10.8 million compared to \$10.3 million last year. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities was only \$6.1 million because some of the cost was paid by those who directly benefited from the programs (\$1,069,000) or by other governments and organizations that subsidized certain programs with grants and contributions (\$3,627,000).

THE COUNTY'S INDIVIDUAL MAJOR FUNDS

As Henry County completed the year, its governmental funds reported a combined fund balance of \$5.4 million, which is virtually the same balance as the prior year. The following are the major reasons for the changes in fund balances from the prior year:

- General Fund revenues increased by approximately \$667,000. The largest revenue increase was approximately \$312,000 in property taxes. General Fund expenditures increased by approximately \$339,000. The expenditure increase was approximately \$270,000 in the public safety and legal service area and \$146,000 in governmental services to residents. The ending fund balance increased from \$771,000 from the prior year to \$1,255,000.

- Mental Health revenues totaled approximately \$2,205,000, an increase of 6.7% from the prior year. The Mental Health Fund balance at year end showed an increase of \$28,000 from the prior year to \$827,000.

- Secondary Roads Fund receipts decreased by approximately \$114,000. Expenditures increased by approximately \$333,000 over the prior year. These changes along with the transfer from the rural services fund of \$856,000 resulted in a decrease in the Secondary Roads Fund ending balance of approximately \$86,000.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Supervisors annually adopts a budget following required public notice and hearing for all funds, except agency funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The County budget is prepared on the cash basis. Over the course of the year, the County amended its operating budget one time. The amendment was made on May 31, 2006. The amendment was made to provide for additional expenditures in certain County departments. No increase in taxes was required.

Expenditures were allowed to exceed the budget prior to the amendment in the Physical Health and Social Services function.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, Henry County had approximately \$23.1 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This is a net increase (including additions and deletions) of approximately \$494,000, or 2% over last year.

Capital Assets of Governmental Activities at Year End (Expressed in Thousands)

	June 30,	
	2006	2005
Land	\$ 3,843	3,702
Buildings, machinery and equipment	3,035	3,094
Work in progress	108	101
Infrastructure	16,150	15,745
Total	\$ 23,136	22,642
This year's major additions included (in thousands):		
International trucks		\$ 166
Land		141
Total		\$ 307

The County had depreciation expense of \$1,324,338 in FY06 and total accumulated depreciation of \$13,596,325 at June 30, 2006.

The County's fiscal year 2006 capital budget included \$1,166,996 for capital projects, principally for continued upgrading of secondary roads and bridges. The County has no plans to issue additional debt to finance these projects. Rather, the County will use resources on hand in the County's fund balance. More detailed information about the County's capital assets is presented in Note 7 to the financial statements.

Long-Term Debt

At June 30, 2006, the County had \$504,306 in notes payable and other debt compared to \$525,482 last year, as shown below.

Outstanding Debt of Governmental Activities at Year-End		
	June 30,	
	2006	2005
Notes payable	\$ 41,307	81,412
Note payable	61,184	100,000
Landfill closure and post closure costs	174,000	174,000
Compensated absences	227,815	170,070
Totals	<u>\$ 504,306</u>	<u>525,482</u>

Debt decreased as a result of payments on notes payable.

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. Henry County's outstanding general obligation debt is significantly below this \$28 million limit. Other obligations include accrued vacation pay. Additional information about the County's long-term debt is presented in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Henry County's elected officials, appointed officials, and citizens considered many factors when arriving at and setting the fiscal year 2007 budget, tax rates, and the fees that will be charged for various county activities. One of those factors is the economy. The County's population has grown 5.8% from 1990 to 2000, compared to the State of Iowa at 5.4% for the same time period. The persons under 18 and the persons over 65 are very close to the State figures. The median household money income (based on 1997 data) is slightly above the State figure of \$35,427 with a County figure of \$37,047. Other factors considered were county to county valuation comparisons, State cutbacks in revenue to counties, and the overall economy that is growing much more slowly than anticipated.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Henry County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Auditor's Office, Henry County, Mt. Pleasant, Iowa.

HENRY COUNTY, IOWA

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
Assets	
Cash and pooled investments	\$ 5,137,928
Receivables:	
Property tax:	
Delinquent	17,267
Succeeding year	5,306,167
Interest and penalty on property tax	18,358
Accounts	64,243
Accrued interest	895
Due from other governments	308,426
Inventories	195,092
Prepaid expenses	81,304
Capital assets (net of accumulated depreciation)	23,136,599
Total assets	<u>34,266,279</u>
Liabilities	
Accounts payable	240,651
Accrued interest payable	1,136
Due to other governments	114,294
Deferred revenue:	
Succeeding year property tax	5,306,167
Long-term liabilities:	
Portion due or payable within one year:	
Notes payable	102,491
Compensated absences	227,815
Portion due or payable after one year:	
Landfill closure and post closure costs	174,000
Total liabilities	<u>6,166,554</u>
Net Assets	
Invested in capital assets, net of related debt	23,136,599
Restricted for:	
Supplemental levy purposes	633,510
Mental Health	819,631
Secondary roads	2,253,575
Capital projects	(859)
Rural Services	78,744
Other purposes	791,339
Unrestricted	387,186
Total net assets	<u>\$ 28,099,725</u>

See notes to financial statements.

HENRY COUNTY, IOWA

Statement of Activities

Year Ended June 30, 2006

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Service	Grants and Contributions	Grants and Contributions
Functions/Programs:				
Governmental activities:				
Public safety and legal services	\$ 2,297,039	110,405	121,834	-
Physical health and social services	463,336	24,964	180,357	-
Mental health	2,184,642	505,486	747,062	-
County environment and education	755,539	33,339	-	-
Roads and transportation	3,055,535	73,195	2,424,519	-
Governmental services to residents	904,132	289,388	151,203	-
Administration	974,276	27,784	-	-
Non-program	182,656	4,929	1,739	-
Total	\$ 10,817,155	1,069,490	3,626,714	-

General Revenues:

Property and other county tax levied for:

General purposes

Penalty and interest on property tax

State tax credits

Local option sales tax

Grants and contributions not restricted to specific purpose

Licenses and permits

Unrestricted investment earnings

Gain on sale of property and equipment

Miscellaneous

Total general revenues

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

See notes to financial statements.

Net (Expense)
Revenue and Changes
in Net Assets

(2,064,800)

(258,015)

(932,094)

(722,200)

(557,821)

(463,541)

(946,492)

(175,988)

(6,120,951)

4,951,516

63,872

311,734

761,258

207,906

425

281,979

907

53,288

6,632,885

511,934

27,587,791

\$ 28,099,725

HENRY COUNTY, IOWA
Balance Sheet
Governmental Funds
June 30, 2006

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
<u>Assets</u>				
Cash and pooled investments	\$ 1,160,982	1,012,211	83,674	2,128,977
Receivables:				
Property tax:				
Delinquent	11,899	2,856	2,512	-
Succeeding year	3,455,296	830,734	1,020,137	-
Interest and penalty on property tax	18,358	-	-	-
Accounts	33,110	27,549	114	1,994
Accrued interest	813	-	-	-
Due from other funds	-	-	-	2,701
Due from other governments	25,765	23,071	-	187,645
Inventories	-	-	-	195,092
Prepaid expenditures	81,304	-	-	-
Total assets	<u>\$ 4,787,527</u>	<u>1,896,421</u>	<u>1,106,437</u>	<u>2,516,409</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 38,038	130,183	-	45,407
Due to other funds	2,331	370	-	-
Due to other governments	8,960	105,247	-	87
Deferred revenue:				
Succeeding year property tax	3,455,296	830,734	1,020,137	-
Other	27,607	2,544	2,344	-
Total liabilities	<u>3,532,232</u>	<u>1,069,078</u>	<u>1,022,481</u>	<u>45,494</u>
Fund balances:				
Reserved for:				
Supplemental levy purposes	438,418	-	-	195,092
Unreserved, reported in:				
General fund	816,877	-	-	-
Special revenue funds	-	827,343	83,956	2,275,823
Capital projects fund	-	-	-	-
Total fund balances	<u>1,255,295</u>	<u>827,343</u>	<u>83,956</u>	<u>2,470,915</u>
Total liabilities and fund balances	<u>\$ 4,787,527</u>	<u>1,896,421</u>	<u>1,106,437</u>	<u>2,516,409</u>

See notes to financial statements.

Capital Projects	Nonmajor Special Revenue	Total
(472)	752,556	5,137,928
-	-	17,267
-	-	5,306,167
-	-	18,358
-	1,476	64,243
-	82	895
-	-	2,701
-	71,945	308,426
-	-	195,092
-	-	81,304
(472)	826,059	11,132,381

387	26,636	240,651
-	-	2,701
-	-	114,294
-	-	5,306,167
-	-	32,495
387	26,636	5,696,308

-	-	633,510
-	-	816,877
	799,423	3,986,545
(859)	-	(859)
(859)	799,423	5,436,073
(472)	826,059	11,132,381

HENRY COUNTY, IOWA
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2006

Total governmental fund balances (page 13) **\$ 5,436,073**

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$36,732,924 and the accumulated depreciation is \$13,596,325. 23,136,599

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. 32,495

Long-term liabilities, including compensated absences payable and accrued interest are not due and payable in the current period, and therefore, are not reported in the funds. (505,442)

Net assets of governmental activities (page 11) **\$ 28,099,725**

HENRY COUNTY, IOWA
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2006

	General	Special Revenue		
		Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 3,177,303	806,414	994,611	4,489
Interest and penalty on property tax	63,175	-	-	-
Intergovernmental	680,445	890,214	61,879	2,423,677
Licenses and permits	425	-	-	2,530
Charges for service	421,268	505,486	1,180	67,018
Use of money and property	229,943	1,588	-	-
Miscellaneous	18,657	1,297	3,232	25,164
Total revenues	4,591,216	2,204,999	1,060,902	2,522,878
Expenditures:				
Operating:				
Public safety and legal services	1,774,827	-	238,293	-
Physical health and social services	457,298	-	-	-
Mental health	-	2,176,930	-	-
County environment and education	323,828	-	-	-
Roads and transportation	-	-	-	3,124,499
Governmental services to residents	554,898	-	-	-
Administration	959,002	-	-	-
Non-program	22,692	-	-	-
Capital projects	15,331	-	42,547	340,884
Total expenditures	4,107,876	2,176,930	280,840	3,465,383
Excess (deficiency) of revenues over (under) expenditures	483,340	28,069	780,062	(942,505)
Other financing sources (uses):				
Sale of capital assets	907	-	-	-
Operating transfers in	-	-	-	856,920
Operating transfers out	-	-	(856,920)	-
Total other financing sources (uses)	907	-	(856,920)	856,920
Net change in fund balances	484,247	28,069	(76,858)	(85,585)
Fund balances beginning of year	771,048	799,274	160,814	2,556,500
Fund balances end of year	\$ 1,255,295	827,343	83,956	2,470,915

See notes to financial statements.

Capital Projects	Nonmajor Special Revenue	Total
-	761,258	5,744,075
-	-	63,175
-	56,454	4,112,669
-	19,028	21,983
-	41,935	1,036,887
-	51,779	283,310
3,479	11,704	63,533
3,479	942,158	11,325,632

-	324,099	2,337,219
-	-	457,298
-	-	2,176,930
-	488,857	812,685
-	-	3,124,499
-	344,462	899,360
-	-	959,002
-	-	22,692
107,628	37,268	543,658
107,628	1,194,686	11,333,343

(104,149)	(252,528)	(7,711)
-----------	-----------	---------

-	-	907
-	-	856,920
-	-	(856,920)
-	-	907

(104,149)	(252,528)	(6,804)
103,290	1,051,951	5,442,877
(859)	799,423	5,436,073

HENRY COUNTY, IOWA
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities
Year Ended June 30, 2006

Net change in fund balances - Total governmental funds (page 15) **\$ (6,804)**

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate expenditures over the estimated useful lives of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	\$ 1,656,492	
Capital assets contributed by the Iowa Department of Transportation	161,756	
Depreciation expense	<u>(1,324,338)</u>	493,910

Because some of the revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds as follows:

Property tax		2,549
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Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Current year debt repayments are as follows:

Note principal	38,816	
Note principal	<u>40,105</u>	78,921

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Compensated absences	(57,745)	
Interest on long-term debt	<u>1,103</u>	<u>(56,642)</u>

Change in net assets of governmental activities (page 12) **\$ 511,934**

HENRY COUNTY, IOWA
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2006

Assets

Cash and pooled investments:	
County Treasurer	\$ 1,102,247
Other County officials	78,818
Receivables:	
Property tax:	
Delinquent	49,683
Succeeding year	13,383,764
Accounts	894
Accrued interest	605
Due from other governments	11,876
Total assets	<u>14,627,887</u>

Liabilities

Accounts payable	38,121
Salaries and benefits payable	1,685
Due to other funds	377
Due to other governments	14,497,568
Trusts payable	77,566
Compensated absences	12,570
Total liabilities	<u>14,627,887</u>
Net assets	<u>\$ -</u>

See notes to financial statements.

HENRY COUNTY, IOWA

Notes to Financial Statements June 30, 2006

Note 1 – Summary of Significant Accounting Policies

Henry County, Iowa is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Henry County, Iowa has included all funds, organizations, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the County. The County has no component units that meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appoint representatives to the following boards and commissions: County Assessor's Conference Board, County Emergency Management Commission and County Public Safety Commission and Joint E-911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

(continued)

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued)

June 30, 2006

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the County and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, inter-governmental revenues, and other nonexchange transactions.

The Statement of Net Assets presents the County's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

(continued)

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued) June 30, 2006

Note 1 – Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Fund Financial Statements – Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for secondary road construction and maintenance.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

Additionally, the County reports the following funds:

Fiduciary Funds

Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds.

(continued)

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued)

June 30, 2006

Note 1 – Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The government-wide, propriety fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursements grant resources to such programs, followed by categorical block grants, and then by general revenues.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

(continued)

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued) June 30, 2006

Note 1 – Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust, which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For the purpose of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, may have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2005.

Interest and Penalty on Property Tax Receivable – Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

(continued)

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued)

June 30, 2006

Note 1 – Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Fund Equity (Continued)

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2006, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Infrastructure	\$65,000
Land, buildings and improvements	5,000
Equipment and vehicles	5,000

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings, machinery and equipment	3 – 50
Infrastructure	10 – 65

(continued)

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued)

June 30, 2006

Note 1 – Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Fund Equity (Continued)

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable – Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services, and Secondary Roads Funds.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(continued)

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued) June 30, 2006

Note 1 – Summary of Significant Accounting Policies (Continued)

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the physical health and social services function prior to the amendment.

Note 2 – Cash and Pooled Investments

The County's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006 the County had \$2,105,000 invested in certificates of deposit.

In addition, the County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$3,009,582 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The County's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the County.

Credit risk. The investment in Iowa Public Agency Investment Trust is unrated.

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued) June 30, 2006

Note 3 – Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Secondary Roads	Special Revenue: Rural Services	<u>\$ 856,920</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Note 4 – Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Notes Payable	Notes Payable	Landfill Closure and Post Closure Costs	Compensated Absences	Total
Balance beginning	\$ 81,412	100,000	174,000	170,070	525,482
Increase	-	-	-	280,967	280,967
Decrease	40,105	38,816	-	223,222	302,143
Balance end of year	<u>\$ 41,307</u>	<u>61,184</u>	<u>174,000</u>	<u>227,815</u>	<u>504,306</u>
Due within one year	<u>\$ 41,307</u>	<u>61,184</u>	<u>-</u>	<u>227,815</u>	<u>330,306</u>

Note 5 – Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2006 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Special Revenue: Secondary Roads	Special Revenue: Mental Health	\$ 370
	General	<u>2,331</u>
Total		<u>\$ 2,701</u>

These balances result from the time lag between the dates interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system and payments between funds are made.

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued) June 30, 2006

Note 6 – Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Services	\$ <u>8,960</u>
Special Revenue:		
Mental Health	Services	105,247
Secondary Roads	Services	<u>87</u>
		<u>105,334</u>
Total for governmental funds		\$ <u>114,294</u>
Agency:		
County Assessor	Collections	\$ 470,931
Schools		8,555,190
Community Colleges		569,781
Corporations		3,444,696
E911 Surcharge		73,259
Auto License and Use Tax		343,465
County Hospital		464,331
Agricultural Extension		171,616
All Other		<u>404,299</u>
Total for agency funds		\$ <u>14,497,568</u>

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued) June 30, 2006

Note 7 – Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,702,010	141,200	-	3,843,210
Work in Progress	101,187	6,778	-	107,965
Total capital assets not being depreciated	<u>3,803,197</u>	<u>147,978</u>	<u>-</u>	<u>3,951,175</u>
Capital assets being depreciated:				
Buildings, machinery and equipment	6,440,148	356,986	67,000	6,730,134
Infrastructure	24,731,331	1,320,284	-	26,051,615
Total capital assets being depreciated	<u>31,171,479</u>	<u>1,677,270</u>	<u>67,000</u>	<u>32,781,749</u>
Less accumulated depreciation for:				
Buildings, machinery and equipment	3,345,935	409,255	60,000	3,695,190
Infrastructure, road network	8,986,052	915,083	-	9,901,135
Total accumulated depreciation	<u>12,331,987</u>	<u>1,324,338</u>	<u>60,000</u>	<u>13,596,325</u>
Total capital assets being depreciated, net	<u>18,839,492</u>	<u>352,932</u>	<u>7,000</u>	<u>19,185,424</u>
Governmental activities capital assets, net	<u>\$22,642,689</u>	<u>500,910</u>	<u>7,000</u>	<u>23,136,599</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 47,363
Physical health and social services	6,038
County environment and education	24,636
Roads and transportation	1,197,312
Governmental services to residents	3,335
Administration	10,029
Non-program	23,081
Capital Projects	<u>12,544</u>
Total depreciation expense – governmental activities	<u>\$ 1,324,338</u>

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued)

June 30, 2006

Note 8 – Operating Leases

Henry County Iowa leases facilities for its operations. The terms and payments are as follows:

<u>Lessor</u>	<u>Lease Terms</u>	<u>Monthly Leases</u>
Mertens Rental Properties	6/1/05 to 5/31/06	\$600

The County entered into a cash lease for the Care Facility crop land on March 23, 2006 and it ends on March 1, 2009. Total annual cash rent is \$6,360. Payments include \$2,120 on or before June 1st and \$4,240 on or before December 1st of each year.

Note 9 – Risk Management

Henry County is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 531 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2006 were \$160,919.

(continued)

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued)

June 30, 2006

Note 9 – Risk Management (Continued)

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2006, no liability has been recorded in the County's financial statements. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution that the withdrawing member would have made for the one-year period following withdrawal.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$500,000 and \$100,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued)

June 30, 2006

Note 10 – Closure and Post-Closure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The closure and post-closure care costs have been estimated at \$435,000. Henry County's portion of the estimated liability is \$174,000 which represents 40% of the total estimated cost. A liability has been reported on these costs in the statement of net assets. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The County budgets annually for the costs of testing at the landfill.

Note 11 – Garbage and Recycling Service Agreement

The County entered into a garbage and recycling services agreement with Whaley Waste System during the year ended May 14, 2002. The agreement is a five-year contract effective July 1, 2002. The County will pay \$6,850 per month plus disposal charges. On January 25, 2005, the County entered into an amendment to the agreement that increases the monthly cost to \$7,325 per month plus disposal charges. The amendment did not change the duration of the contract.

Note 12 – Professional Consulting Service Agreement

The County entered into a professional consulting service agreement with Maximus, Inc. on June 14, 2005. The agreement is a three-year contract for the annual development of a central services cost allocation plan for fiscal years 2005, 2006, and 2007. The County will pay one-half of recovered funds, not to exceed \$3,773 for each year.

Note 13 – Roadway Easement

As of June 27, 2006, Henry County entered into a road easement with Robert E. and Sandra C. Breazele for a period of fifteen years to provide access to Oakland Mills Park and recreational cabins within the park. The easement allows the use of a private gravel road owned by Robert and Sandra Breazele. During this easement, Henry County will be responsible for the maintenance of the area and also for extending the existing fence.

Note 14 – Pension and Retirement Benefits

The County contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits that are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

(continued)

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued) June 30, 2006

Note 14— Pension and Retirement Benefits (Continued)

Most regular plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the County contribute an actuarially determined contribution rate.

Contribution requirements are established by State statute. The County's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$231,044, \$219,111, and \$204,479 respectively, equal to the required contributions for each year.

Note 15 – Disposal Capacity Assurance Agreement

The County entered into a contract on June 28, 1995 with the Great River Regional Waste Authority for the assurance of landfill capacity. The County will pay an annual sum of \$15,063.91 for fifteen years. The annual payments will be due July 1st of each year, with the first payment due July 1, 1995, and the final payment due July 1, 2009. In return, the Authority will reserve 1,250 tons of rural residential waste disposal capacity per year from July 1, 1995, to June 30, 2010.

Note 16 – Commitments

Henry County has pledged \$40,000 to the Mt. Pleasant Library and Community Center. The amount will be paid over a three-year period starting in the fiscal year ending June 30, 2006.

The County has the following commitments at June 30, 2006:

<u>Project</u>	<u>Vendor</u>	<u>Amount</u>
Two trucks	Truck County	\$ 131,115
Building	Yaley Construction	25,633
Courtland	Shipley Construction	68,339
Rock Crushing	Reilly Construction	107,250
Franklin Ave Liners	Oden Enterprises	18,956
Perkins Road	Iowa Bridget Culvert	180,942

Note 17 – Pending Litigation

As of December 15, 2006, Henry County made a claim against a vehicle owner and its insurance carrier for damages exceeding, \$10,000 alleged to have been caused by collision of a truck with a bridge on a county roadway which may result in litigation in which the County would be the plaintiff.

HENRY COUNTY, IOWA

Notes to Financial Statements (Continued) June 30, 2006

Note 18 – Economic Development Revolving Loan

Henry County created an Economic Development Revolving Loan Fund on March 30, 2004. Pursuant to the Development Plan entered into by Henry County Industrial Development Corporation and the City of Mt. Pleasant, Iowa, pursuant to the Urban Renewal Plan of the City of Mt. Pleasant, and all applicable State and Federal Laws including Iowa Code Chapters 368 and 403, Henry County Industrial Development Corporation has acquired and developed Crossroads Industrial Park to provide sites for industrial development. The amount of \$300,000 from the County's receipt of local sales and service tax receipts was provided for purposes of economic development through issuance of a loan to the Henry County Industrial Development Corporation to pay for the construction of a building at Crossroads Industrial Park and for no other purpose. After the sale of the building, the Henry County Board of Supervisors may direct that the loan be repaid. If repayment of the loan is not requested by the Supervisors, proceeds of the loan shall be retained by the Henry County Industrial Development Corporation for purposes of financing other economic development projects which will generate significant new jobs which are consistent with the factors set forth in Iowa Code section 15A.1(2) and for the purpose of economic development and public betterment.

Also, the amount of \$100,000 was transferred to the Southeast Iowa Regional Planning Commission to establish a Economic Development Revolving Loan Fund. Southeast Iowa Regional Planning Commission has agreed to manage the funds provided by the County for the operation and administration in complete compliance with all regulations as outlined in the County's Administrative Plan adopted by the County.

These notes receivable have not been recorded on the County's financial statements since the amount of the repayment cannot be determined.

Note 19 – Notes Payable

The County entered into a loan agreement with the Department of Economic Development dated February 2, 1990. The following is a schedule of the future note payments including interest at 3% per annum:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ <u>41,307</u>	<u>1,240</u>	<u>42,547</u>

The following is for a Local Government Innovation Fund Loan that they will be paying back to the state in full in the next fiscal year.

2007	\$ <u>61,184</u>	<u>1,224</u>	<u>62,408</u>
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HENRY COUNTY, IOWA

Notes to Financial Statements (Continued) June 30, 2006

Note 20 – Subsequent Events

On July 20, 2006, Henry County Board of Supervisors approved a resolution authorizing the sale of general obligation capital loan notes in the amount of \$410,000. The notes were issued on August 1, 2006, to fund equipment and reconstruction of public buildings. The notes shall mature and bear interest as follows:

Interest Rate	Principal Amount	Maturity
4.00%	\$ 130,000	2007
4.00%	135,000	2008
4.05%	<u>145,000</u>	2009
	<u>\$ 410,000</u>	

Note 21 – Prior Period Adjustment

The Attorney Case Management fund had to restate the beginning net assets due to a loan that was not recorded in the previous fiscal year. The beginning balance was reduced by \$100,000 which was reclassified to notes payable. The grant portion is considered due to other governments, since the special revenue fund has been discontinued. The funds will be disbursed January of 2007 so another County can be the fiscal agent for the fund.

Note 22 – Deficit Fund Balance

The County had a deficit fund balance in the Capital Projects fund at June 30, 2006.

HENRY COUNTY, IOWA
Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Fund Balances -
Budget and Actual (Cash Basis) - All Governmental Funds
Required Supplementary Information
Year Ended June 30, 2006

	Actual	Less Funds not Required to be Budgeted
Receipts:		
Property and other county tax	\$ 5,731,731	-
Interest and penalty on property tax	65,112	-
Intergovernmental	4,163,651	-
Licenses and permits	26,959	-
Charges for services	1,056,104	-
Use of money and property	233,801	-
Miscellaneous	64,487	-
Total receipts	<u>11,341,845</u>	<u>-</u>
Disbursements:		
Public safety and legal services	2,342,719	-
Physical health and social services	700,547	-
Mental health	2,123,962	-
County environment and education	803,413	-
Roads and transportation	3,223,468	-
Governmental services to residents	574,544	-
Administration	973,217	-
Non-program	24,924	-
Capital projects	552,456	-
Total disbursements	<u>11,319,250</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	22,595	-
Other financing sources net	<u>67,919</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	90,514	-
Balance beginning of year	<u>5,047,414</u>	<u>-</u>
Balance end of year	<u><u>\$ 5,137,928</u></u>	<u><u>-</u></u>

See accompanying independent auditors' report

Net	Budgeted Amounts		Final to Actual
	Original	Final	Net Variance
5,731,731	5,587,741	5,587,741	143,990
65,112	53,500	53,500	11,612
4,163,651	4,205,498	4,205,498	(41,847)
26,959	25,875	25,875	1,084
1,056,104	678,101	678,101	378,003
233,801	92,468	92,468	141,333
64,487	21,150	21,150	43,337
11,341,845	10,664,333	10,664,333	677,512
2,342,719	2,216,148	2,369,648	26,929
700,547	785,737	861,487	160,940
2,123,962	2,295,595	2,295,595	171,633
803,413	752,630	833,792	30,379
3,223,468	3,545,550	3,545,550	322,082
574,544	665,137	668,370	93,826
973,217	1,017,520	1,038,520	65,303
24,924	44,800	48,060	23,136
552,456	1,129,347	1,166,996	614,540
11,319,250	12,452,464	12,828,018	1,508,768
22,595	(1,788,131)	(2,163,685)	2,186,280
67,919	-	-	67,919
90,514	(1,788,131)	(2,163,685)	2,254,199
5,047,414	4,219,229	4,219,229	828,185
5,137,928	2,431,098	2,055,544	3,082,384

HENRY COUNTY, IOWA
 Budgetary Comparison Schedule -
 Budget to GAAP Reconciliation
 Required Supplementary Information
 Year Ended June 30, 2006

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 11,341,845	(16,213)	11,325,632
Expenditures	11,319,250	14,093	11,333,343
Net	22,595	(30,306)	(7,711)
Other financing sources, net	67,919	(67,012)	907
Beginning fund balances	5,047,414	395,463	5,442,877
Ending fund balances	\$ 5,137,928	298,145	5,436,073

See accompanying independent auditors' report

HENRY COUNTY, IOWA

Notes to Required Supplementary Information- Budgetary Reporting

June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year-end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service, and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, and Capital Projects Funds. Although the budget document presents functions disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, a budget amendment increased budgeted disbursements by \$375,554. The budget amendment is reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2006, disbursements in the physical health and social services function exceeded the amounts budgeted prior to the amendment.

HENRY COUNTY, IOWA
Combining Balance Sheet
Nonmajor Special Revenue Funds
Year Ended June 30, 2006

	Resource Enhancement and Protection	Community Betterment	Sheriff's Forfeiture Fund	County Recorder's Records Management
<u>Assets</u>				
Cash and pooled investments	\$ 64,463	273,063	345	11,704
Receivables:				
Accounts	-	1,100	-	376
Accrued interest	68	-	-	14
Due from other governments	6,207	65,738	-	-
Total assets	\$ 70,738	339,901	345	12,094
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	\$ -	16,309	-	-
Salaries and benefits payable	-	-	-	-
Due to other governments	-	-	-	-
Total liabilities	-	16,309	-	-
Fund equity:				
Unreserved	70,738	323,592	345	12,094
Total liabilities and fund equity	\$ 70,738	339,901	345	12,094

See accompanying independent auditors' report

Economic Development	Conservation Land Acquisition Trust	County Recorder's Electronic Transaction Fee	Conservation Nature Center Fund	Attorney's Case Management Project Fund	Total
254,261	57,368	478	4,296	86,578	752,556
-	-	-	-	-	1,476
-	-	-	-	-	82
-	-	-	-	-	71,945
254,261	57,368	478	4,296	86,578	826,059
10,000	-	-	-	327	26,636
-	-	-	-	-	-
-	-	-	-	-	-
10,000	-	-	-	327	26,636
244,261	57,368	478	4,296	86,251	799,423
254,261	57,368	478	4,296	86,578	826,059

HENRY COUNTY, IOWA
Combining Schedule of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June, 30, 2006

	Resource Enhancement and Protection	Community Betterment	Sheriff's Forfeiture Fund	County Recorder's Records Management
Revenues:				
Property and other county tax	\$ -	761,258	-	-
Intergovernmental	42,552	10,608	-	-
Licenses and Permits	-	19,028	-	-
Charges for service	-	5,936	-	3,840
Use of money and property	1,193	-	-	197
Miscellaneous	-	5,000	345	-
Total revenues	43,745	801,830	345	4,037
Expenditures:				
Operating:				
Public safety and legal services	-	260,386	-	-
Physical health and social services	-	-	-	-
County environment and education	136,953	341,904	-	-
Governmental services to residents	-	332,174	-	4,563
Administration	-	-	-	-
Non-program	-	-	-	-
Capital projects	-	-	-	-
Total expenditures	136,953	934,464		4,563
Excess (deficiency) of revenues over (under) expenditures	(93,208)	(132,634)	345	(526)
Fund balances beginning of year, as restated	163,946	456,226	-	12,620
Fund balances end of year	\$ 70,738	323,592	345	12,094

See accompanying independent auditors' report.

Economic Development	Conservation Land Acquisition Trust	County Recorder's Electronic Transaction Fee	Conservation Nature Center Fund	Attorney's Case Management Project Fund	Total
-	-	-	-	-	761,258
-	-	-	-	3,294	56,454
-	-	-	-	-	19,028
-	32,159	-	-	-	41,935
50,270	-	119	-	-	51,779
-	2,063	-	4,296	-	11,704
50,270	34,222	119	4,296	3,294	942,158
-	-	-	-	63,713	324,099
-	-	-	-	-	-
10,000	-	-	-	-	488,857
-	-	7,725	-	-	344,462
-	-	-	-	-	-
-	-	-	-	-	-
-	37,268	-	-	-	37,268
10,000	37,268	7,725	-	63,713	1,194,686
40,270	(3,046)	(7,606)	4,296	(60,419)	(252,528)
203,991	60,414	8,084	-	146,670	1,051,951
244,261	57,368	478	4,296	86,251	799,423

HENRY COUNTY, IOWA
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2006

	<u>County Offices</u>			<u>Agricultural</u>		
	<u>County Auditor</u>	<u>County Recorder</u>	<u>County Sheriff</u>	<u>County Facility</u>	<u>Extension Education</u>	<u>County Assessor</u>
<u>Assets</u>						
Cash and pooled investments:						
County Treasurer	\$ -	-	-	-	3,201	203,564
Other County officials	-	33,809	22,177	22,832	-	-
Receivables:						
Property tax:						
Delinquent	-	-	-	-	577	970
Succeeding year	-	-	-	-	167,838	281,096
Accounts	-	225	-	-	-	82
Accrued interest	-	-	-	-	-	-
Due from other governments	-	-	-	-	-	-
Total assets	\$ -	34,034	22,177	22,832	171,616	485,712
<u>Liabilities</u>						
Accounts payable	\$ -	-	-	-	-	526
Salaries and benefits payable	-	-	-	-	-	1,685
Due to other funds	-	377	-	-	-	-
Due to other governments	-	33,657	-	-	171,616	470,931
Trusts payable	-	-	22,177	22,832	-	-
Compensated absences	-	-	-	-	-	12,570
Total liabilities	\$ -	34,034	22,177	22,832	171,616	485,712

(continued)

See accompanying independent auditors' report.

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Schools	Community Colleges	Corporations	Townships
165,241	10,933	56,842	2,326
-	-	-	-
29,776	1,905	14,492	321
8,360,173	556,943	3,373,362	113,217
-	-	-	-
-	-	-	-
-	-	-	-
<hr/>			
8,555,190	569,781	3,444,696	115,864
<hr/>			
-	-	-	-
-	-	-	-
-	-	-	-
8,555,190	569,781	3,444,696	115,864
-	-	-	-
-	-	-	-
<hr/>			
8,555,190	569,781	3,444,696	115,864
<hr/>			

HENRY COUNTY, IOWA
Combining Schedule of Fiduciary Assets and Liabilities
Agency Funds (Continued)
June 30, 2006

	E911 Surcharge	Special Assessments	Fire Districts	Advance Tax	Auto License and Use Tax
<u>Assets</u>					
Cash and pooled investments:					
County Treasurer	\$ 108,391	2,033	2,608	32,557	343,465
Other County officials	-	-	-	-	-
Receivables:					
Property tax:					
Delinquent	-	-	163	-	-
Succeeding year	-	-	103,649	-	-
Accounts	210	-	-	-	-
Accrued interest	379	-	-	-	-
Due from other governments	-	-	-	-	-
Total assets	<u>\$ 108,980</u>	<u>2,033</u>	<u>106,420</u>	<u>32,557</u>	<u>343,465</u>
<u>Liabilities</u>					
Accounts payable	\$ 35,721	-	-	-	-
Salaries and benefits payable	-	-	-	-	-
Due to other funds	-	-	-	-	-
Due to other governments	73,259	2,033	106,420	-	343,465
Trusts payable	-	-	-	32,557	-
Compensated absences	-	-	-	-	-
Total liabilities	<u>\$ 108,980</u>	<u>2,033</u>	<u>106,420</u>	<u>32,557</u>	<u>343,465</u>

(continued)

See accompanying independent auditor's report.

County Recorder's Electronic Transaction Fee	County Hospital	Civil Defense Emergency Management	Tax Sale Redemption Trust	Brucellosis and Tuberculosis Eradication	Empowerment Fund	Total
408	35,373	6,508	24,219	244	104,334	1,102,247
-	-	-	-	-	-	78,818
-	1,472	-	-	7	-	49,683
-	427,486	-	-	-	-	13,383,764
377	-	-	-	-	-	894
-	-	-	-	-	226	605
-	-	11,876	-	-	-	11,876
785	464,331	18,384	24,219	251	104,560	14,627,887

-	-	1,874	-	-	-	38,121
-	-	-	-	-	-	1,685
-	-	-	-	-	-	377
785	464,331	16,510	24,219	251	104,560	14,497,568
-	-	-	-	-	-	77,566
-	-	-	-	-	-	12,570
785	464,331	18,384	24,219	251	104,560	14,627,887

HENRY COUNTY, IOWA
Combining Schedule of Changes in Fiduciary Assets and Liabilities
Agency Funds
Year Ended June 30, 2006

	County Offices			County Care Facility	Agricultural Extension Education
	County Auditor	County Recorder	County Sheriff		
Assets and Liabilities					
Balances beginning of year	\$ -	23,690	20,816	8,725	164,977
Additions:					
Property and other county tax	-	-	-	-	163,167
E-911 surcharge	-	-	-	-	-
State tax credits	-	-	-	-	8,730
Office fees and collections	1,530	275,190	152,756	-	-
Electronic transaction fee	-	-	-	-	-
Interest on investments	-	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-	-
Assessments	-	-	-	-	-
Trusts	-	-	248,584	127,739	-
Miscellaneous	-	-	-	-	-
Total additions	1,530	275,190	401,340	127,739	171,897
Deductions:					
Agency remittances:					
To other funds	1,530	127,660	148,507	-	-
To other governments	-	137,186	4,145	-	165,258
Trusts paid out	-	-	247,327	113,632	-
Total deductions	1,530	264,846	399,979	113,632	165,258
Balances end of year	\$ -	34,034	22,177	22,832	171,616

(continued)

See accompanying independent auditors' report

County Assessor	Schools	Community Colleges	Corporations	Townships	E911 Surcharge	Special Assessments
497,409	8,423,463	561,914	3,520,681	109,312	208,164	-
272,537	8,140,972	544,253	3,634,243	110,133	-	-
-	-	-	-	-	122,985	-
15,860	458,126	29,796	170,965	6,901	-	-
763	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	4,367	-
-	-	-	-	-	-	-
-	-	-	-	-	-	24,164
-	-	-	-	-	-	-
-	-	-	-	-	180	-
289,160	8,599,098	574,049	3,805,208	117,034	127,532	24,164
-	-	-	-	-	-	-
300,857	8,467,371	566,182	3,881,193	110,482	226,716	22,131
-	-	-	-	-	-	-
300,857	8,467,371	566,182	3,881,193	110,482	226,716	22,131
485,712	8,555,190	569,781	3,444,696	115,864	108,980	2,033

HENRY COUNTY, IOWA
Combining Schedule of Changes in Fiduciary
Assets and Liabilities (Continued)
Agency Funds
Year Ended June 30, 2006

Assets and Liabilities	Fire Districts	Advance Tax	Auto License and Use Tax	County Recorder's Electronic Transaction Fee
Balances beginning of year	\$ 96,974	162	342,233	642
Additions:				
Property and other county tax	100,382	-	-	-
E-911 surcharge	-	-	-	-
State tax credits	5,267	-	-	-
Office fees and collections	-	-	-	-
Electronic transaction fee	-	-	-	3,842
Interest on investments	-	-	-	-
Auto licenses, use tax and postage	-	-	4,045,882	-
Assessments	-	-	-	-
Trusts	-	-	-	-
Miscellaneous	-	38,473	-	-
Total additions	105,649	38,473	4,045,882	3,842
Deductions:				
Agency remittances:				
To other funds	-	-	-	-
To other governments	96,203	-	4,044,650	3,699
Trusts paid out	-	6,078	-	-
Total deductions	96,203	6,078	4,044,650	3,699
Balances end of year	\$ 106,420	32,557	343,465	785

(continued)

See accompanying independent auditors' report

County Hospital	Civil Defense Emergency Management	Tax Sale Redemption Trust	Brucellosis and Tuberculosis Eradication	Empowerment Fund	Total
460,761	18,482	31,139	207	71,233	14,560,984
415,172	-	-	4,284	-	13,385,143
-	-	-	-	-	122,985
22,949	-	-	121	-	718,715
-	-	-	-	-	430,239
-	-	-	-	-	3,842
-	-	-	-	2,253	6,620
-	-	-	-	-	4,045,882
-	-	-	-	-	24,164
-	-	-	-	-	376,323
-	136,118	244,296	-	226,816	645,883
438,121	136,118	244,296	4,405	229,069	19,759,796
-	-	-	-	-	277,697
434,551	136,216	251,216	4,361	195,742	19,048,159
-	-	-	-	-	367,037
434,551	136,216	251,216	4,361	195,742	19,692,893
464,331	18,384	24,219	251	104,560	14,627,887

HENRY COUNTY, IOWA
Schedule of Revenues by Source and Expenditures by Function -
All Governmental Funds
For the Last Four Years

		Modified Accrual Basis			
		2006	2005	2004	2003
Revenues:					
Property and other county tax	\$	5,744,075	4,379,581	4,764,947	4,789,039
Interest and penalty on property tax		63,175	65,711	186,253	59,776
Intergovernmental		4,112,669	4,536,342	3,582,143	3,831,461
Licenses and permits		21,983	425	5,605	7,780
Charges for service		1,036,887	787,498	682,749	668,192
Use of money and property		283,310	82,151	106,483	240,211
Miscellaneous		63,533	448,703	221,634	53,794
Total	\$	11,325,632	10,300,411	9,549,814	9,650,253
Expenditures:					
Operating:					
Public safety and legal services	\$	2,337,219	1,985,029	1,808,178	1,660,734
Physical health and social services		457,298	674,561	819,266	566,556
Mental health		2,176,930	1,938,760	2,115,734	2,134,805
County environment and education		812,685	630,331	627,944	547,983
Roads and transportation		3,124,499	2,640,111	2,648,650	2,874,376
Governmental services to residents		899,360	675,291	507,507	395,897
Administration		959,002	1,410,046	906,120	838,547
Non-program		22,692	85,211	86,691	14,103
Capital projects		543,658	555,458	650,530	581,618
Total	\$	11,333,343	10,594,798	10,170,620	9,614,619

See accompanying independent auditors' report.



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**Independent Auditors' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

To the Officials of Henry County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Henry County, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements listed in the table of contents and have issued our report thereon dated January 8, 2007. We conducted our audit in accordance with U.S generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Henry County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Henry County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Henry County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Henry County and other parties to whom Henry County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and the assistance extended to us by personnel of Henry County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Theobald, Donohue & Thompson, P.C.

Mt. Pleasant, Iowa
January 8, 2007

HENRY COUNTY, IOWA

Schedule of Findings Year Ended June 30, 2006

Part I: Summary of the Independent Auditors' Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

(continued)

HENRY COUNTY, IOWA

Schedule of Findings (Continued) Year Ended June 30, 2006

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- II-A-06 Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County's financial statements.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, each official should review the operating procedures of their office to obtain the maximum internal control possible under the circumstances.

Response – With limited staff, we segregate responsibilities the best we can. With a small office it is sometimes hard to separate certain office functions.

Conclusion – Response accepted.

- II-B-06 County Policies – The County does not have a policy regarding personal use of County property.

Recommendation – The County should create a policy regarding the personal use of County property. This should include telephones, computers and County vehicles. Employees need to understand that these items are the property of the County and not to be used for personal reasons.

Response – We have a policy for the use of the Internet. We will work on preparing a policy for the use of the telephones. There is a verbal understanding that the phones are not to be used for long distance calls unless the employees have their own calling card. The Sheriff's Office has a policy regarding the use of their vehicles.

Conclusion – Response accepted.

(continued)

HENRY COUNTY, IOWA

Schedule of Findings (Continued) Year Ended June 30, 2006

Part II: Findings Related to the Financial Statements (Continued):

II-C-06 Clearing Account – The County maintains a clearing account that gets closed out to the Mental Health fund. The clearing account had revenues that were not cleared out at June 30, 2006.

Recommendations – Close the revenues in the clearing account to the Mental Health fund to correct the cash balances.

Response – We made an adjusting journal entry to correct the balance in the account.

Conclusion – Response accepted.

(continued)

HENRY COUNTY, IOWA

Schedule of Findings (Continued) Year Ended June 30, 2006

Part III: Other Findings Related to Required Statutory Reporting:

III-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the physical health and social services function prior to the amendment. Also, the amended budget included \$60,000 of empowerment expenditure that should not be a part of the budget.

Recommendation – The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget. The budget also needs to reflect only the activity of the funds included in the County budget.

Response – We will amend the budget when required. We will only include the activity of the budgeted funds in the future.

Conclusion – Response accepted.

III-B-06 Questionable Expenditures – We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-06 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

III-D-06 Business Transactions – Business transactions between the County and County officials, employees, or immediate family members of officials or employees were as follows:

<u>Name and Business Connection</u>	<u>Transactions Descriptions</u>	<u>Amount</u>
Smith Plumbing (Husband of Employee)	Building Repairs	\$ 10,877
Florence Smith (Wife of Janitor)	Janitorial	2,741
Rick Smith (Janitor)	Services	1,400

In accordance with Chapter 331.342 of the Code of Iowa, all of the transactions except with Florence Smith and Smith Plumbing do not appear to represent a conflict of interest since totals were less than \$1,500 during the fiscal year. Transactions with Florence Smith and Smith Plumbing may represent a conflict of interest as defined in Chapter 331.342 of the Code of Iowa.

Recommendation – The County should consult legal counsel to determine the disposition of this matter.

Response – We will take the appropriate action to dispose of this matter.

Conclusion – Response accepted.

(continued)

HENRY COUNTY, IOWA

Schedule of Findings (Continued) Year Ended June 30, 2006

Part III: Other Findings Related to Required Statutory Reporting (Continued):

III-E-06 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions.

III-F-06 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not. However, the Board went into closed session to discuss matters relating to the County. The minutes recorded did not document the vote of each member on the question of holding the closed sessions as required by Chapter 21.5(2) of the Code of Iowa.

Recommendation – The Board of Supervisors should ensure all closed meetings comply with Chapter 21 of the Code of Iowa.

Response – This was an oversight. We usually record the vote as required and will do so in the future.

Conclusion – Response accepted.

III-G-06 Deposits and Investments – We noted no instances of non-compliance with deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the County's investment policy.

III-H-06 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

III-I-06 County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an extension council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2006 for the County Extension Office did not exceed the amount budgeted.

III-J-06 Capital Projects Funds – The County had a deficit fund balance in the Capital Projects fund at June 30, 2006.

Recommendation – Expenditures should not be made in any fund unless there is sufficient current assets.

Response – We now have a positive fund balance and will monitor this in the future to prevent any deficit balances.

Conclusion – Response accepted.

(continued)

HENRY COUNTY, IOWA

Schedule of Findings (Continued) Year Ended June 30, 2006

Part III: Other Findings Related to Required Statutory Reporting (Continued):

III-K-06 Code of Ordinances – The County does not have a Code of Ordinances compiled every five years.

Recommendation – The Code of Ordinances containing all of the County ordinances in effect should be compiled and published as required by Chapter 331.302(9) of the Code of Iowa.

Response – We are in the process of redoing our zoning ordinance and subdivision ordinance. When this is completed, we will comply with Chapter 331.302(9) of the Code of Iowa.

Conclusion – Response accepted.

HENRY COUNTY, IOWA
Audit Staff

This audit was performed by:

THEOBALD, DONOHUE & THOMPSON, P.C.
Certified Public Accountants
Mt. Pleasant, Iowa

Personnel:

Tom Holtkamp, CPA, Principal

Ted M. Wiegand, CPA, Staff Accountant